

Letter from the Administrator



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Citizens of Charleston County:

I am pleased to present to you the Fiscal Year (FY) 2014 Charleston County Operating Budget, as adopted by Charleston County Council on June 18, 2013. The challenges that we have faced over the last several years seem to be lifting as we look ahead to FY 2014. That is not to say the next few years will be easy ones. There are many new challenges looming on the horizon. To that end, this budget focused on a number of long-term issues and the approach necessary to best position the County as we move forward.

HIGHLIGHTS

- *Provides Net Tax Cut to Homeowners*
- *Expands Services*
 - *Consolidated Dispatch*
 - *Public Works: Mosquito Control*
- *Maintains Prudent Fund Balance and Rainy Day Fund*

The FY 2014 budget is balanced and meets the following budget objectives established at the beginning of the budget process:

- ❖ **Limit financial impact on taxpayer.** County Council decreased the level of taxation for our residents and maintained the level of taxation for our businesses. The *net* tax and fee bill for the four percent assessed property homeowner of a \$250,000 in appraised property value will total \$253, which is \$12 less than the current year's bill.
- ❖ **Improve direct services to the community.**
 - Public Safety: This budget includes the final year of transition costs associated with the opening of the Consolidated Dispatch Center.
 - Public Health: This budget also includes two positions to increase mosquito control coverage in the County.
- ❖ **Maintain a qualified and highly motivated work force.** The FY 2014 budget includes implementation of Phase I of a compensation study and a one-time fixed Cost-of-living-adjustment (COLA) for certain employees. In addition, the budget provides funding to reclassify part-time personnel and temporary employees working over 30 hours per week to full-time status.
- ❖ **Maintain County's fiscal health.** The County endeavors to maintain its strong AAA bond rating with all three major rating agencies. The County's fund balance level, reserves ("Rainy Day" funds), structurally balanced budgets, and five-year financial forecasts are all crucial to sustaining the County's fiscal health.
- ❖ **Preserve County assets.** During the recent economic recession, the County deferred some building maintenance and equipment replacement. The FY 2014 budget represents increased efforts to preserve the County's assets, including buildings, equipment and vehicles valued at approximately \$400 million.

Before I discuss the FY 2014 budget, I want to provide context on the economy, one of the principal drivers in formulating the budget. Most signs point to a gradually improving economy. Both Gross Domestic Product (GDP) and per capita income are rising. The unemployment rate, 7.2% as of May 2013, is declining in Charleston County and continues to remain below the national unemployment rate. Between January 2012 and today, eight manufacturing and technology businesses have either expanded or relocated to Charleston County. These improvements, along with increased tourism, set the stage for the FY 2014 budget.

THE BUDGET IN BRIEF

The improvements in the local economy are reflected in consumer spending and Local Option Sales Tax (LOST) revenues. According to State law, at least 71 percent of this sales tax revenue must be designated to reduce local property taxes. Charleston County budgets 100 percent of LOST revenues as credits against local property taxes. As a result of an increase in the LOST credit, County Council was able to reduce the FY 2014 net tax bill for the homeowner even though the millage rate increased by 0.8 mills.

Revenues and other sources for all operating funds¹ total \$396.2 million for FY 2014, an increase of \$8.3 million over the previous fiscal year. Due to a 0.8 millage rate increase and one percent property base growth, property tax revenues are increased \$5.7 million in the General Fund. Increased consumer spending provided additional revenues of \$6.2 million in the Local Option Sales Tax (a one percent tax) and \$3.5 million in the Transportation Sales Tax (a 0.5 percent tax). Revenue from municipalities for Consolidated Dispatch increased \$2.6 million and will phase out in FY 2015 and FY 2016.

Expenditures and other uses for all operating funds total \$420.8 million for FY 2014, an \$11.5 million decrease from the previous year. In FY 2013, the County ramped-up one-time spending in various areas due to an increase in available funds and new initiatives in the County. The FY 2014 decrease is related to a reduction in one-time expenditures for projects in FY 2013: \$8.4 million for the expansion of the recycling program and \$15 million for a new material recycling facility. Funding is available in the FY 2014 budget to implement recommendations from the FY 2013 compensation study and to convert temporaries to regular status as part compliance with the Federal health care program.

Most of the increases in expenditure are a result of increased personnel cost. Charleston County added 25 Full-Time Equivalents (FTEs) in FY 2014 to expand services primarily in the Consolidated Dispatch Center. Additional funding is also included for increased costs for retirement and health benefits.

The beginning fund balance for all operating funds for FY 2014 is projected at \$188.1 million. The General Fund's beginning fund balance is \$53.3 million which represents several different components. An amount is maintained according to a County financial policy that is equal to two months of disbursements. In addition, a portion of fund balance in the General Fund is set-aside for a "Rainy Day" per the County's budget ordinance. The Rainy Day Fund was established to provide funds for use in the event of a major calamity. This amount is required to be maintained at no less than four percent of General Fund disbursements. A portion of the Environmental Management Fund was used to fund the Rainy Day Fund in FY 2014. For FY 2014, \$7.6 million from the General Fund's fund balance and \$17.0 million from other funds' fund balance are generally used for pay-as-you-go capital equipment and other one-time purposes.

¹ The operating fund includes all funds appropriated on an annual basis but excludes project-length budgets, e.g., Capital Projects Funds.

MAJOR POLICY ISSUES

While the County made every attempt not to balance the budget at the expense of County employees during the national recession, County employees were slightly impacted by the national economy. Employees have not received a (COLA) in several years. In addition, the County offered more part-time and temporary employment to minimize the effects of employment cost for the County.

The FY 2014 budget begins to address these challenges. The budget includes funds to offer a one-time fixed COLA and funds to implement the recommendations for the FY 2013 internal compensation study. In addition, funds are available to convert part-time and temporary employees working more than 30 hours a week to full-time equivalents.

The Capital Improvement section of the Financial Policies states that the County will strive to maintain existing asset and replace infrastructure before they deteriorate to the point of becoming hazardous, incur high maintenance costs, negatively affect property values and/or no longer functionally serve their intended purpose. During the recession, the County used cost saving mechanisms to meet budget constraints, including lower allocations for building maintenance and equipment replacement. The FY 2014 budget represents a continued effort to increase funding for building maintenance and vehicle replacements to the pre-recession level. In previous years, Charleston County had matched one-time funds with capital and one-time expenditures. During FY 2013 and FY 2014, Charleston County used recurring funds for capital and one-time expenditures to meet its asset preservation goal.

Resulting from the County's initiative in long-range financial planning, the County was aware of the future costs of Consolidated Dispatch. Municipalities were to pay the additional costs until full consolidation occurred in FY 2014. After full consolidation, the County would absorb \$7.0 million in additional costs over two years (FY 2015 and FY 2016).

Due to improvements in the economy, additional revenue from the LOST was available to offset the increased millage rate in FY 2013 and FY 2014. As stated above, the County used recurring revenues from the millage increases in FY 2013 and FY 2014 for capital and one-time expenditures. As the County progresses toward its preservation goals, the recurring funds used for capital will be transitioned to Consolidated Dispatch costs in FY 2015 and FY 2016. This approach is expected to avoid a tax increase in FY 2015 and FY 2016 to fund the additional expenses associated with Consolidated Dispatch.

As the nation continues to slowly recover from the recent recession, management will continue monitoring the local economy and address policy issues associated with political and economic changes on the national and state level of governments.

LOOKING AHEAD - CHALLENGES IN FY 2015 AND BEYOND

Several challenges have been identified for FY 2015 and beyond. The following section discusses the challenges and how successful resolution of these issues align with the County's mission and initiatives.

County Initiative I: Service Delivery – Provide a level of service that the customer recognizes as high in quality and value.

toward reaching the 40 percent recycling goal by expanding the recycling program to accept all paper and plastics, by initiating single-stream recycling, and by increasing the number of households receiving curbside recycling pickup.

Employee Compensation and Benefits – The County plans to complete a market study in the future to ensure county salaries are aligned with corresponding jobs in the area. In addition, the County will evaluate an in-house health insurance program for possible increased saving and improved benefits.

Countywide Recycling Program - In FY 2009, County Council established several goals for the Environmental Management Department, including closing the waste-to-energy trash incinerator and increasing countywide recycling to 40 percent. The County closed the incinerator in January 2010 and has made significant advances

County Initiative II: Human Resources & Resource Management – Develop and maintain a flexible organization that is knowledgeable, productive, and committed.

County Initiative III: Long-Term Financial Planning – Ensure sound fiscal term planning.

prudently strives to maintain the available portion of the fund balance at no less than \$5.0 million.

Construction of Lined Landfill Cell - The Environmental Management Department will close a lined landfill cell in FY 2014, with the next closure expected in FY 2018. Currently, the County is managing the fund balance and reserves to ensure there is \$9.0 million available for the next cell closure in FY 2018. In addition to setting aside funds for the closures, the County

State Actions – In recent years, the state has not followed the long-standing statutory allocation formula for funding local governments. Although the General Assembly increased the funding level in FY 2013 and maintained that level in FY 2014, the increase was funded with one-time funds. The County is uncertain whether the General Assembly will be able to sustain this level in future years.

CONCLUSION

The FY 2014 Charleston County Operating Budget meets the County's budget objectives and addresses the major policy issues that face the County. As the County enters a new year and looks forward to future years, we will continue to strive to efficiently and effectively meet the needs of Charleston County's citizens.

Respectfully submitted,

Kurt Taylor
Charleston County Administrator